Title: Redlining in Insurance: Unfair Discrimination or Reasonable Business Practice?

Publication: Midwest Review of Finance and Insurance, Vol. 13, No. 1 (Spring 1999), pp. 154 – 163.

Abstract

Redlining is a legal issue that is associated with the availability and affordability of automobile and homeowners' insurance in urban areas. This study presents an overview of the recent allegations of redlining practices. The main objective is to find whether insurance companies are involved with unfair discrimination against minority groups or certain properties in a specific geographical area. Based on my readings and research on the redlining subject, it is difficult to agree that redlining is a widespread problem. Insurance policies seem to be available in urban areas and insurance industry plans to recruit more minority agents. As far as affordability is concerned, we should understand that premiums are based on the risk characteristics of the insured person or insured property, and loss statistics. Properties in urban areas tend to be older and poorly maintained, therefore inner-city residents are subject higher premiums. If insurance companies charge a uniform rate to every property, it will create a subsidization problem from a low risk group to properties at high risk. Considering all the allegations and proposed new regulations, however, insurance companies need to reexamine their underwriting policies as to who is or is not a good risk. The review of underwriting practices is essential to avoid a possible violation of redlining. It does not necessarily mean that they should accept every application. I like to emphasize that insurance companies should take preventive measures and train employees, so they practice a non-discrimination business. Furthermore, insurance industry should closely communicate and work with inner-city residents to enhance mutual understandings. The Illinois Department of Insurance has investigated alleged redlining violations, but found little evidence that can support a violation of redlining.